

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name	County
Audit Date	Opinion Date	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)			
Street Address		City	State
			ZIP Code
Accountant Signature		Date	
Abraham & Gellray, P.C. Aaron M. Stearns			

**Township of Chippewa
Isabella County, Michigan**

FINANCIAL STATEMENTS

March 31, 2005

Township of Chippewa
Isabella County, Michigan
March 31, 2005
BOARD OF TRUSTEES

George Grim	Supervisor
Barbara Kowallic	Clerk
Jan Gill	Treasurer
Clair Lapham	Trustee
Michelle Quakenbush	Trustee

Township of Chippewa

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ABRAHAM & GAFFNEY, P.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Chippewa
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Chippewa, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Chippewa, Michigan as of March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Chippewa's financial statements. The accompanying other supplementary information, as identified in the Table of Contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 26, 2005

Township of Chippewa
MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

New Financial Reporting

Starting with fiscal year 2005, the Township of Chippewa, Michigan (the "Township") has revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Township's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Township. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Township's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Township's financial health.

The discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State shared revenue, our first largest revenue source in the General Fund, was reduced by the State of Michigan by approximately \$10,918 this year. This reduction was the result of reduced sales tax revenues collected by the State and changes in the distribution formula used by the State. Over the past few years, the State has overestimated its projected revenues to be shared with local governments.
- Property tax revenues increased approximately \$3,469 from the prior year. The increase is the net result of increased assessments and an increase of population in Chippewa Township.
- The Township did not incur costs for Road Paving projects even though the township did budget for it. The reason being that the Isabella County Road Commission could not match the township due to the lack of funds of the road commission.
- Total fund balances related to the Township's governmental funds increased by \$222,872.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township of Chippewa as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township of Chippewa in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township of Chippewa acts solely as a trustee or agent for the benefit of those outside the government.

Township of Chippewa

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005. A comparative analysis of data will be presented in future years when the information is available.

Assets	
Current assets	\$ 1,287,257
Noncurrent assets	<u>98,298</u>
Total assets	1,385,555
Liabilities	
Current liabilities	23,232
Noncurrent liabilities	<u>42,000</u>
Total liabilities	<u>65,232</u>
Net Assets	
Invested in capital assets, Net of related debt	98,293
Unrestricted	<u>1,220,030</u>
Total net assets	<u>\$ 1,320,323</u>

The Township's total net assets were \$1,320,323 at March 31, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$1,220,030 at the end of the fiscal year. The net asset invested in capital assets, net of related debt were at \$98,293. The management's discussion and analysis will present a condensed comparative statement of net assets next year when we have two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

Revenue	
Program revenue:	
Charges for services	\$ 27,205
General revenue:	
Property taxes	68,120
State shared revenue	328,814
Investment earnings	7,615
Other revenue	<u>149,906</u>
Total revenue	581,660
Program Expenses	
General government	144,754
Public safety	109,279
Public works	16,594
Community and economic development	29,025
Other	<u>56,232</u>
Total program expenses	<u>355,884</u>
Change in Net Assets	<u>\$ 225,776</u>

Township of Chippewa

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Governmental Activities

The Township's governmental revenues totaled \$581,660 with the greatest revenue source being state shared revenue. State shared revenue makes up approximately 56.5 percent of total governmental revenue and property taxes make up approximately 11.5 percent of total governmental revenue. Over the past few years, state shared revenue has decreased and income interest has increased. There has been a decrease in other revenue for township and the reason is we are never quite sure what Saginaw Chippewa Indian Tribe will give to the township in revenue funds.

The Township incurred expenses of \$355,884 during the year. General government makes up 41 percent of total governmental expenditures. General government includes Township board, Clerk, Treasurer, Cemetery and various other functions.

The Township's Funds

The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township of Chippewa as a whole. The Township of Chippewa's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for the fiscal year ended March 31, 2005 include the General Fund, the 1993 G.O. Bonds Debt Service Fund and the Sanders Subdivision Capital Projects Fund.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund unanticipated expenditures during the year. Budget amendments were made to cover the additional expenditures in cemetery, clerk & deputy clerk wages and board of review. There has been a decrease in other revenue for township and the reason is we are never quite sure what Saginaw Chippewa Indian Tribe will give to the township in revenue funds.

Capital Asset and Debt Administration

At the end of the fiscal year, the Township had \$98,293 invested in a broad range of capital assets, including buildings, land and equipment.

Current Economic Factors

Revenue sharing is the most significant budgetary concern at this time. The State of Michigan is experiencing significant budget problems, and as they look for solutions, revenue sharing continues to be under attack. The governor's proposed budget for the State's 2004/05 fiscal year calls for a reduction of 3 percent of total revenue sharing. This should mean an additional reduction in revenue sharing of approximately \$9,864 to the Township of Chippewa.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk or Treasurer at the Township Hall.

BASIC FINANCIAL STATEMENTS

Township of Chippewa
STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,051,299
Investments	207,589
Taxes receivable	5,953
Special assessments receivable	22,292
Due from fiduciary funds	<u>124</u>
Total current assets	1,287,257
Noncurrent assets	
Advance to fiduciary funds	5
Capital assets, net	<u>98,293</u>
Total noncurrent assets	<u>98,298</u>
TOTAL ASSETS	1,385,555
LIABILITIES	
Current liabilities	
Accounts payable	16,773
Accrued liabilities	<u>6,459</u>
Total noncurrent liabilities	23,232
Noncurrent liabilities	
Judgment payable	<u>42,000</u>
TOTAL LIABILITIES	65,232
NET ASSETS	
Invested in capital assets, net of related debt	98,293
Unrestricted	<u>1,222,030</u>
TOTAL NET ASSETS	<u><u>\$ 1,320,323</u></u>

See accompanying notes to financial statements.

Township of Chippewa
STATEMENT OF ACTIVITIES
Year Ended March 31, 2005

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:			
General government	\$ 144,754	\$ 22,089	\$ (122,665)
Public safety	109,279	-	(109,279)
Public works	16,594	1,641	(14,953)
Community and economic development	29,025	3,475	(25,550)
Other	56,232	-	(56,232)
Total governmental activities	<u>\$ 355,884</u>	<u>\$ 27,205</u>	(328,679)
General revenues:			
Property taxes			68,120
State shared revenue			328,814
Investment earnings			7,615
Miscellaneous			<u>149,906</u>
Total general revenues			<u>554,455</u>
Change in net assets			225,776
Net assets, beginning of the year			<u>1,094,547</u>
Net assets, end of the year			<u>\$ 1,320,323</u>

See accompanying notes to financial statements.

Township of Chippewa

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2005

	General	Debt Service (1993 G.O. Bonds)	Capital Projects (Sanders Subdivision)	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 992,867	\$ 35,983	\$ 22,449	\$ 1,051,299
Investments	207,589	-	-	207,589
Taxes receivable	5,953	-	-	5,953
Special assessments receivable	-	22,292	-	22,292
Due from other funds	9,431	7,624	-	17,055
Advance to other funds	38,005	-	-	38,005
TOTAL ASSETS	\$ 1,253,845	\$ 65,899	\$ 22,449	\$ 1,342,193
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 16,773	\$ -	\$ -	\$ 16,773
Accrued liabilities	6,459	-	-	6,459
Deferred revenue	-	21,883	-	21,883
Due to other funds	-	-	16,931	16,931
Advances from other funds	-	38,000	-	38,000
TOTAL LIABILITIES	23,232	59,883	16,931	100,046
FUND BALANCES				
Reserved for:				
Advances to other funds	38,005	-	-	38,005
Public safety	39,549	-	-	39,549
Unreserved				
Designated for:				
Capital expenditures	-	-	5,518	5,518
Subsequent year's expenditures	50,600	-	-	50,600
Debt service	-	6,016	-	6,016
Undesignated	1,102,459	-	-	1,102,459
TOTAL FUND BALANCES	1,230,613	6,016	5,518	1,242,147
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,253,845	\$ 65,899	\$ 22,449	\$ 1,342,193

See accompanying notes to financial statements.

Township of Chippewa

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2005

Total fund balances - governmental funds **\$ 1,242,147**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	166,665	
Accumulated depreciation is	<u>(68,372)</u>	
Capital assets, net		98,293

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue	21,883
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Judgment payable	<u>(42,000)</u>
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Net assets of governmental activities **\$ 1,320,323**

See accompanying notes to financial statements.

Township of Chippewa

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2005

	General	Debt Service (1993 G.O. Bonds)	Capital Projects (Sanders Subdivision)	Total Governmental Funds
REVENUES				
Taxes	\$ 68,120	\$ -	\$ -	\$ 68,120
Licenses and permits	3,475	-	-	3,475
Intergovernmental	328,814	-	-	328,814
Charges for services	17,338	-	-	17,338
Interest	7,002	-	613	7,615
Other	141,873	8,033	-	149,906
TOTAL REVENUES	566,622	8,033	613	575,268
EXPENDITURES				
Current				
General government	141,266	-	-	141,266
Public safety	109,279	-	-	109,279
Public works	16,594	-	-	16,594
Community and economic development	29,025	-	-	29,025
Other	56,232	-	-	56,232
TOTAL EXPENDITURES	352,396	-0-	-0-	352,396
EXCESS OF REVENUES OVER EXPENDITURES	214,226	8,033	613	222,872
Fund balances (deficit), beginning of year	1,016,387	(2,017)	4,905	1,019,275
Fund balances, end of year	<u>\$ 1,230,613</u>	<u>\$ 6,016</u>	<u>\$ 5,518</u>	<u>\$ 1,242,147</u>

See accompanying notes to financial statements.

Township of Chippewa

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Net change in fund balances - total governmental funds	\$ 222,872
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Amounts reported for governmental activities in the statement of activities are different because:

In the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Depreciation expense	(3,488)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue	<u>6,392</u>
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Change in net assets of governmental activities	<u><u>\$ 225,776</u></u>
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See accompanying notes to financial statements.

Township of Chippewa

Fiduciary Funds

STATEMENT OF NET ASSETS

March 31, 2005

	Agency Funds
ASSETS	
Cash	<u>\$ 16,585</u>
LIABILITIES	
Due to other funds	\$ 124
Due to State	680
Due to individuals and agencies	15,776
Advances from other funds	<u>5</u>
	<u>\$ 16,585</u>

See accompanying notes to financial statements.

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chippewa Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Isabella County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services in many areas including fire protection, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Township of Chippewa. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Chippewa contain all the funds controlled by the Township Board.

2. Joint Ventures

The Township participates in the following activity which is considered to be a jointly governed organization in relation to the Township, due to there being no ongoing financial interest or responsibility.

Shepherd Tri-Township Fire Department - The Township of Chippewa, in conjunction with the Townships of Coe and Lincoln, and the Village of Shepherd, has entered into an agreement to provide fire services by creating the Shepherd Tri-Township Fire Department.

Each unit names two members and one alternate from its governing body to serve as the Fire Department's Advisory Board. The Advisory Board has responsibility for adopting an annual budget. Under the arrangement, each unit bears its share of the Fire Department's direct labor costs for fire runs within its boundaries and other costs according to a formula which takes the ratio of population and State Equalized Valuation which each unit involved bears to the total population and State Equalized Valuation of all units involved, and averages the two. The percentages of responsibility for other costs for the year ended November 30, 2004, for the Townships of Chippewa, Coe, and Lincoln and the Village of Shepherd were 44%, 19%, 22%, and 15%, respectively. Annual contributions are made by each unit based upon the budget. The Township paid \$109,279 for operating expenditures, wage reimbursement, and mileage for the year ended March 31, 2005.

The financial activities of the Shepherd Tri-Township Fire Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended November 30, 2004, are available from the Department. As of November 30, 2004, the Department had a fund balance of \$144,400 and General Fixed Assets of \$1,800,881.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Township are:

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Debt Service Fund (1993 G.O. Bonds) - The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.
- c. Capital Projects Fund (Sanders Subdivision) - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital projects. Financing and construction of road improvements paid for by special assessments levied against benefited properties are included in this fund.

4. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

6. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level for the General Fund through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity, must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. Individual amendments were appropriately approved by the Township Board as required.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of regular and money market checking and savings accounts. Cash and cash equivalents are recorded at market value.

8. Investments

Investments are recorded at cost, which approximates market value. Investments consist of certificates of deposit with an original maturity of greater than 90 days.

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Property Taxes

The Township of Chippewa bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Isabella County Treasurer on March 1. The Isabella County Treasurer remits payment to the Township on all delinquent real property taxes. The Township then remits these delinquent payments to the applicable units. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2005, the Township levied 0.9710 mills per \$1,000 or assessed valuation for general governmental services. The total taxable value for the 2004 levy for property within the Township was \$68,811,820.

10. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Equipment	15 years

11. Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

13. Accounting Change

As of April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Accounting Change - continued

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$266,982, which were previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Township's capital assets.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township of Chippewa is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of March 31, 2005, the carrying amounts and bank balances for the accounts were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 906,561	\$ 907,081
Savings	161,248	161,248
Certificate of Deposit	<u>207,589</u>	<u>207,589</u>
	<u>\$ 1,275,398</u>	<u>\$ 1,275,918</u>

The cash and cash equivalents captions on the financial statements include \$75 in imprest cash.

Deposits of the Township are at federally insured banks located in the State of Michigan, with all accounts maintained in the name of the Township. As of March 31, 2005, the Township accounts were insured by the FDIC for \$454,932 and the amount of \$820,986 was uninsured and uncollateralized.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2005:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Cash and cash equivalents	\$ 1,051,299	\$ 16,585
Investments	<u>207,589</u>	<u>-</u>
	<u>\$ 1,258,888</u>	<u>\$ 16,585</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at March 31, 2005, are as follows:

Due to General Fund from	
Capital Projects Fund	\$ 9,307
Fiduciary funds	<u>124</u>
	<u>\$ 9,431</u>

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Due to Debt Service Fund from Capital Projects Fund	<u>\$ 7,624</u>
--	-----------------

NOTE D: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details advances receivable and payable at March 31, 2005:

Advance from General Fund to: Debt Service Fund	<u>\$ 38,000</u>
Advance from General Fund to: Fiduciary funds	<u>\$ 5</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	<u>Restated Balance April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Mar. 31, 2005</u>
Land (not being depreciated)	\$ 14,965	\$ -	\$ -	\$ 14,965
Buildings	141,500	-	-	141,500
Equipment	<u>10,200</u>	<u>-</u>	<u>-</u>	<u>10,200</u>
Totals at historical cost	166,665	-0-	-0-	166,665
Less accumulated depreciation for:				
Buildings	(60,684)	(2,808)	-	(63,492)
Equipment	<u>(4,200)</u>	<u>(680)</u>	<u>-</u>	<u>(4,880)</u>
Total accumulated depreciation	<u>(64,884)</u>	<u>(3,488)</u>	<u>-0-</u>	<u>(68,372)</u>
Capital assets, net	<u>\$ 101,781</u>	<u>\$ (3,488)</u>	<u>\$ -0-</u>	<u>\$ 98,293</u>

Depreciation expense was charged to the following governmental activities:

General government	<u>\$ 3,488</u>
--------------------	-----------------

NOTE F: LONG-TERM DEBT

The Township has been involved in a legal matter in which the courts have ruled against the Township in the amount of \$42,000. The Township's insurance policy contains no coverage for the situation in question. A Claim of Appeal has been filed. This amount is shown in the financial statements as judgment payable in the government-wide financial statements only, as the Township does not expect to pay this liability within sixty days of fiscal year end.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE G: RETIREMENT PLAN

The Township of Chippewa is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Chippewa Pension Plan is a money purchase defined contribution pension benefit plan. During the year ended March 31, 2005, the Township of Chippewa was required to contribute for all eligible employees at a minimum rate of 15% of wages.

For the year ended March 31, 2005, the Township had a total payroll of \$89,531. The Township of Chippewa Retirement Plan covered a payroll of \$34,573. The Township made contributions to the retirement plan in the amount of \$7,068.

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Township has set aside for specific purposes.

The following are the various fund balance reserves as of March 31, 2005:

General Fund	
Reserved for advances to other funds	\$ 38,005
Reserved for public safety	<u>39,549</u>
	<u>\$ 77,554</u>

The following are the fund balance designations as of March 31, 2005:

General Fund	
Designated for subsequent year's expenditures	\$ 50,600
Debt Service Fund	
Designated for debt service	6,016
Capital Projects Fund	
Designated for capital expenditures	<u>5,518</u>
	<u>\$ 62,134</u>

NOTE I: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Township also maintains commercial insurance coverage for workers' compensation.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE J: CONTINGENT LIABILITIES

The Township is currently involved in litigation but due to the inconclusive nature of the actions, it is not possible for legal counsel to determine the probable outcomes of the cases. Legal counsel could not estimate the potential loss of these actions. Township management considers any potential liability resulting from pending legal action that would not be covered by insurance or reserves to be immaterial.

NOTE K: RELATED PARTY TRANSACTIONS

The Township engages in business transactions with two vendors, Grim Printing and Grim Enterprises, which are owned and operated by the Township supervisor. These transactions are made in the normal course of business and amounted to \$16,438 for the year ended March 31, 2005.

NOTE L: BUILDING AND ZONING FINANCIAL INFORMATION

The Township elected to report the financial activities of the building and zoning activity in the general fund. The following is the required information as it relates to this activity for the year ended March 31, 2005:

REVENUES	
Building Permits	\$ 3,475
EXPENDITURES	
Salary and fringes	10,935
Supplies and miscellaneous	1,898
Publications and notices	<u>2,286</u>
TOTAL EXPENDITURES	<u>15,119</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u><u>\$ (11,644)</u></u>

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedule, the Township's budgeted expenditures have been shown at the functional classification level. The approved budgets of the Township have been adopted at the departmental (activity) level.

During the year ended March 31, 2005, the Township incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Public safety			
Fire department	\$ 103,000	\$ 109,279	\$ 6,279

REQUIRED SUPPLEMENTARY INFORMATION

Township of Chippewa

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current tax levy	\$ 55,000	\$ 55,000	\$ 66,806	\$ 11,806
Delinquent personal property tax	200	200	85	(115)
Penalties and interest	50	50	535	485
Trailer park taxes	700	700	694	(6)
Total taxes	55,950	55,950	68,120	12,170
Licenses and permits				
Building/zoning permits	2,000	2,000	3,475	1,475
Intergovernmental - State				
State shared revenue	192,000	192,000	328,814	136,814
Charges for services				
Cable franchise fees	10,000	10,000	13,134	3,134
Cemetery lots and grave openings	5,000	5,000	4,204	(796)
Total charges for services	15,000	15,000	17,338	2,338
Interest and dividends	4,000	4,000	7,002	3,002
Other				
Tribal gaming revenue	140,000	140,000	132,376	(7,624)
Miscellaneous	10,100	10,100	9,497	(603)
Total other	150,100	150,100	141,873	(8,227)
TOTAL REVENUES	419,050	419,050	566,622	147,572
EXPENDITURES				
General government				
Township board	13,100	13,957	13,945	12
Supervisor	13,045	13,045	12,206	839
Clerk	22,710	23,790	23,746	44
Board of Review	2,100	2,725	2,529	196
Treasurer	19,360	19,360	13,387	5,973
Assessor	33,800	33,800	23,102	10,698
Elections	9,800	9,800	5,775	4,025
Township hall	14,600	14,600	8,773	5,827
Cemetery	39,750	39,750	29,983	9,767
Other	14,600	14,600	7,820	6,780
Total general government	182,865	185,427	141,266	44,161

Township of Chippewa

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public safety				
Fire department	\$ 91,000	\$ 103,000	\$ 109,279	\$ (6,279)
Public works				
Street lights	6,500	7,710	6,727	983
Highways, streets, and bridges	130,500	130,500	9,867	120,633
Drains at large	20,000	20,000	-	20,000
Total public works	157,000	158,210	16,594	141,616
Community and economic development				
Zoning commission	16,000	16,000	15,119	881
Planning commission	18,850	18,850	13,906	4,944
Total community and economic development	34,850	34,850	29,025	5,825
Other				
Pension plan contributions and fees	9,000	9,000	7,068	1,932
Social security	6,500	6,500	3,800	2,700
Insurance	8,900	10,060	9,364	696
Hydrogeological assessment	36,000	36,000	36,000	-0-
Other	500	500	-	500
Total other	60,900	62,060	56,232	5,828
TOTAL EXPENDITURES	526,615	543,547	352,396	191,151
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(107,565)	(124,497)	214,226	338,723
Fund balance, beginning of year	1,016,387	1,016,387	1,016,387	-0-
Fund balance, end of year	\$ 908,822	\$ 891,890	\$ 1,230,613	\$ 338,723

OTHER SUPPLEMENTARY INFORMATION

Township of Chippewa

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

March 31, 2005

	Trust and Agency	Current Tax Collections	Total
ASSETS			
Cash	\$ 706	\$ 15,879	\$ 16,585
LIABILITIES			
Due to other funds	\$ 21	\$ 103	\$ 124
Due to State	680	-	680
Due to individuals and agencies	-	15,776	15,776
Advances from other funds	5	-	5
TOTAL LIABILITIES	\$ 706	\$ 15,879	\$ 16,585

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

Member:
American Institute of Certified
Public Accountants
and
Michigan Association of
Certified Public Accountants

MANAGEMENT LETTER

To the Board of Trustees
Township of Chippewa
Mt. Pleasant, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Township of Chippewa for the year ended March 31, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Township's internal controls and our discussions with management.

1. The Board of Trustees should adopt a formal written policy for capital asset management.

During discussions with management, we noted that the Board of Trustees has not formally implemented written procedures and policies for capital asset management. We believe that by documenting specific policies, contractual employees will have a clearer understanding of the organization's expectations. We also believe that such documentation will provide greater internal control.

We suggest that the Board adopt a policy for the capitalization and disposal of capital assets. The policy should specify criteria for capitalizing assets, including the per unit dollar value threshold to be used. Items below the threshold established by the Board may be expensed as they are purchased. The policy should also specify that the disposal of capital assets requires formal approval by the Board of Trustees. Such approval should be documented in the minutes of the Board meetings.

2. Budgets should be monitored and amended when necessary.

As noted in the financial statements, expenditures of the Township exceeded the amounts appropriated. The variances noted were in the General Fund.

The Michigan Public Act 621 of 1978, as amended, provides that the Township shall not incur expenditures in excess of the amounts appropriated.

We suggest the Township monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated April 26, 2005.

This report is intended solely for the use of management and the Board of Trustees of the Township of Chippewa and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 26, 2005